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AUDITOR GENERAL

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TO: County Auditors

FROM: Deene Dayton, Director of Local Government Assistance

RE: 2012 County Annual Report Forms

Enclosed are the annual report forms, worksheets and related instructions to be used in completing your 2012 annual financial report. Complete the original forms and make photo static copies for distribution. It is acceptable to prepare the financial statements in ink; however, caution should be taken so that the figures are legible. Exhibits I and II are the only forms required to be published.

SDCL 7-10-4 requires the annual financial report to be prepared by the first of March and published within thirty days thereafter. Immediately after publication a copy of certain statements must be filed with the Department of Legislative Audit.

REPORT PREPARATION

ACCOUNT NUMBERS -- All annual reports that are filed with the department should have account numbers for each amount reported on the fund financial statements. If you type up your own report rather than using our forms, please add the account numbers to your report, or at a minimum you may pencil them onto the copy that is mailed to us.

LEVEL OF REPORTING -- If you are going to prepare the annual report off of your computer, make sure that the level of reporting is the same as the enclosed report. For example, "state shared revenues" is broken down to bank franchise, MV, inheritance, etc. It is important for our database to receive all data at a uniform level. Financial Statements prepared on your own software must be completed in the same format as the enclosed.

CREATIVITY -- For years teachers have tried to enlighten our minds and encourage us to be creative. I, on the other hand, am going to ask that you keep creativity to a minimum. Try to make all of your numbers fit the lines provided. You may even need to force a few minor numbers to a related area. Databases just do not accept account numbers that have not been provided.

COUNTY ANNUAL FINANCIAL REPORT PACKAGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. The MD&A provides financial managers with the opportunity to present both a short term and long term analysis of the government's activities. It is Required Supplementary Information (RSI) but it must be placed BEFORE the basic financial statements. The MD&A should provide basic financial information in a verbal format for users of the financial statements that do not desire to go into great detail on the various transactions and balances.

The MD&A should focus on the primary government. Comments in MD&A should distinguish between information pertaining to the primary government and that of component units. The decision to discuss matters relating to a component unit should be based on the individual component unit's significance to the total of all discretely present component units and that individual component unit's relationship with the primary government.

A sample MD&A has been provided to counties in our GASB 34 training manual.

The MD&A **must** contain the following:

- a. **A brief discussion of the basic financial statements.** This should include the relationships of the statements to each other and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.
- b. **Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. (Only as available in the first year)** At a minimum, the MD&A should present the information needed to support the analysis of financial position and results of operations as required in item c below. The MD&A should include the following elements:
 - ✓ Total assets, distinguishing between capital and other assets.
 - ✓ Total liabilities, distinguishing between long-term liabilities and other liabilities.
 - ✓ Total net position, distinguishing amount amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts.
 - ✓ Program revenues, by major source.
 - ✓ General revenues, by major source.
 - ✓ Total revenues.
 - ✓ Program expenses, at a minimum by function.
 - ✓ Total expenses.
 - ✓ Excess (deficiencies) before contributions to any term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers.
 - ✓ Contributions.
 - ✓ Special and extraordinary items.

- ✓ Transfers.
- ✓ The change in net position.
- ✓ The ending net position.

c. **An analysis of the government's overall financial position and the results of operations. This should assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations.** This analysis should address:

- ✓ both governmental and business-type activities as reported in the government-wide financial statements,
- ✓ and should further include reasons for significant changes from the prior year and not just the amounts or percentages of changes.

In addition, important economic factors, such as changes in the tax base, that significantly affected operating results for the year should be discussed.

d. **An analysis of balances and transactions of individual funds.** This analysis should address:

- ✓ the reasons for significant changes in fund balances or fund net position,
- ✓ and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

e. **An analysis of significant variations between the original and final budget amounts and between final budget amounts and the actual budget results for the General Fund.** This analysis should include any currently know reasons for these variations that are expected to have a significant effect on future services or liquidity.

f. **A description of significant capital asset and long-term debt activity during the year.** This should include a discussion of:

- ✓ commitments made for capital expenditures,
- ✓ any changes in credit ratings,
- ✓ and debt limitations that might affect the financing of planned facilities or services.

g. **A description of currently know facts, decisions, or conditions that are expected to have a significant effect on financial position (the net position) or the results of operations (meaning revenues, expenses and other changes in net position).** For the purposes of the MD&A, GASB 34 defines "currently known facts" as information that management is aware of as of the date of the independent auditor's report. Therefore, any matters (known facts) that arise between the preparation of the MD&A by the government and the field work date of the actual audit report, must be analyzed for possible modification of the MD&A.

COUNTY ANNUAL FINANCIAL STATEMENTS

INTRODUCTION

The county annual financial statements consist of two government-wide financial statements and seven fund financial statements. The government wide financial statements provide both long-term and short-term information about the county's overall financial status. The fund financial statements focus on individual parts of the county government, reporting the county's operations in more detail than the government-wide statements to keep track of specific sources of funding and spending for specific purposes.

STATEMENT LISTING AND EXPLANATION

EXHIBIT I – STATEMENT OF NET POSITION – GOVERNMENT WIDE

The statement of net position is a listing of assets, liabilities and net position, by governmental activities and business-type activities as of December 31, and shows the financial position of the county at that time. The statement also presents the assets, liabilities and net position of component units of the county as a separate column. Fiduciary fund activity is not included in the government-wide financial statements. This statement is presented on the accrual basis of accounting and reflects balance sheet items such as capital assets, net of accumulated depreciation expense.

EXHIBIT II – STATEMENT OF ACTIVITIES – GOVERNMENT WIDE

This statement shows the results of operations, by governmental activities and business-type activities for each expenditure function of government for the fiscal year. The statement matches program revenues related to each expenditure function and nets the program expenses against program revenues. Program revenues are classified in the statement of activities as capital grants and contributions, charges for services and operating grants and contributions. All the remaining revenues which do not qualify as program revenues are listed separately as general revenues to compute the change in net position and ultimately the December 31, net position. The statement of activities also includes the respective revenues and expenditures of the component units as a separate column.

EXHIBIT III – BALANCE SHEET- GOVERNMENTAL FUNDS - FUND FINANCIAL STATEMENTS

Exhibit III shows the assets, liabilities and fund balances of major individual governmental funds at December 31. Each major governmental fund will be presented individually and a total column for all funds is required. Nonmajor governmental funds may be reported individually or be combined and reported as a separate column before the total column for all governmental funds. This exhibit should be presented on the modified accrual basis of accounting. A reconciliation is required to explain the differences between the numbers reported on the governmental fund balance sheet and the numbers reported for governmental activities in the government-wide statement of net position and must be presented in an accompanying schedule immediately following the balance sheet.

EXHIBIT IV – STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS - FUND FINANCIAL STATEMENTS

Exhibit IV shows the revenues, expenditures and changes in fund balances of major individual governmental funds for the fiscal year. Each major governmental fund will be presented individually and a total column for all funds is required. Nonmajor governmental funds may be reported individually or be combined and reported as a separate column before the total column for all governmental funds. Revenues should be presented by major source and expenditures should be reported by sub-function/department. A reconciliation is required to explain the differences between the numbers reported on the governmental fund statement of revenues, expenditures and changes in fund balance and the numbers reported for governmental activities in the government-wide statement of activities and must be presented in an accompanying schedule immediately following this exhibit. This exhibit should be presented on the modified accrual basis of accounting.

EXHIBIT V – STATEMENT OF NET POSITION – PROPRIETARY FUNDS - FUND FINANCIAL STATEMENTS

Exhibit V shows the assets, liabilities and net position of proprietary funds at December 31. Each major enterprise fund will be presented in its own column, with a total column for all enterprise funds. Nonmajor enterprise funds may be reported individually or be combined and reported as a separate column before the total column for all enterprise funds. Internal service funds will be aggregated in a single column, presenting all internal service funds separately from enterprise funds. This exhibit should be presented on the accrual basis of accounting.

EXHIBIT VI – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS – FUND FINANCIAL STATEMENTS

Exhibit VI shows the revenues, expenses and changes in fund net position of proprietary funds for the fiscal year. Each major enterprise fund will be presented in its own column, with a total column for all enterprise funds. Nonmajor enterprise funds may be reported individually or be combined as reported as a separate column before the total column for all enterprise funds. Internal service funds will be aggregated in a single column, presenting all internal service funds separately from enterprise funds. This exhibit should be presented on the accrual basis of accounting.

EXHIBIT VII – STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – FUND FINANCIAL STATEMENTS

Exhibit VII shows the effects of cash flows of proprietary funds for the fiscal year. Each major enterprise fund will be presented in its own column, with a total column for all enterprise funds. Nonmajor enterprise funds may be reported individually or be combined and reported as a separate column before the total column for all enterprise funds. Internal service funds will be aggregated in a single column, presenting all internal service funds separately from enterprise funds. Only the direct method for reporting cash flows, as explained in GASB Statement No. 9 is allowable.

EXHIBIT VIII – STATEMENT OF NET POSITION – FIDUCIARY FUNDS

Exhibit VIII shows the assets, liabilities and net position of fiduciary funds at December 31. Fiduciary funds are never considered to be major funds. Instead each fiduciary fund type (i.e., pension trust funds, investment trust funds, private-purpose trust funds and agency funds) will be reported as a separate column. The fiduciary funds are not reported as part of the government-wide financial statements.

EXHIBIT IX – STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS

Exhibit IX shows the additions, deductions and changes in net position of fiduciary funds for the fiscal year. Each fiduciary fund type will be reported as a separate column. The fiduciary funds are not reported as part of the government-wide financial statements.

WORKSHEET INSTRUCTIONS FOR COMBINING FUND FINANCIAL STATEMENTS

The fund financial statements present combined data for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and fiduciary fund types which contain more than one fund. This means that the data for individual funds generic to that particular fund type must be added together in a total column before the data can be presented on the fund financial statements. For example, a county may contain more than one nonmajor governmental fund, based on the entity's determination of major funds, which would need to be added together in an aggregate total before it is presented on the governmental funds financial statement as a separate column. This same procedure applies for all financial statements whether assets, liabilities and equity or revenue and expenditures are being reported. This procedure applies only when there are two or more individual funds of the same type.

The combining procedures will require a combining worksheet for each statement upon which combined data will be presented. A separate column should be set up on the worksheet for each individual fund. The data for each individual fund is listed. When these individual fund columns are complete, the data is then combined in a separate total column to show the total data by fund type. These totals are then transferred to the exhibits of the financial statements under the appropriate generic fund type heading.

These combining worksheets must be retained and filed with your copy of the financial statements in the business office.

WORKSHEET TO RECONCILE ADJUSTMENTS FROM FUND FINANCIAL STATEMENTS TO GOVERNMENT WIDE FINANCIAL STATEMENTS

The fund financial statements are prepared on the modified accrual basis of accounting and the government-wide financial statements are prepared on the accrual basis of accounting. Therefore, a working trial balance worksheet format should be prepared to show the reconciliation process of generating the government-wide statement of net position and statement of activities. The worksheet starts with the fund financial statement format and employs journal entries to consolidate the financial data to a government-wide financial statement format.

NOTES TO THE FINANCIAL STATEMENTS

Notes to the financial statements are an integral part of the financial statements. Even though an independent auditor may provide guidance and technical advice, and even assist in drafting them, the information in the notes to the financial statements is the responsibility of management of the county. Counties are encouraged to prepare their own notes to the financial statements. Completing the notes to the financial statements may save a county audit time and audit cost. A suggested format for the Notes to the Financial Statements is available on the Department of Legislative Audit county web page.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary Information includes other schedules, statistical data, or other information that GASB has determined are an essential part of financial reporting.

a. Budgetary Comparison Schedule

Budgetary schedules will now present the original budget and the final budget in separate columns. Budgetary comparisons used to be required for all fund types adopting budgets but now are required for the General Fund and for each major special revenue fund that is legally required to adopt a budget. (In many cases counties will report all special revenue funds as major funds; therefore, every governmental fund will be a major fund). Budgetary reporting is not required for nonmajor special revenue funds. In addition, budgetary comparison reporting is not required for any capital projects funds. Under GASB 34, budgetary comparison schedules will be reported as required supplementary information instead of as a basic financial statement, as is done now. The budgetary comparison schedules will follow the notes to the financial statements.

b. Schedule of Funding Progress

For those entities that have OPEB (Other Post Employment Benefits) a Schedule of Funding Progress must be included as required supplementary information. This schedule reports select OPEB information covering three years.

OTHER SUPPLEMENTARY INFORMATION

a. Schedule of Changes in Long-Term Debt

A schedule of changes in long-term debt should be presented as supplementary information since only cash assets are reported on the financial statements. The schedule should also include long-term interfund loans as part of long-term debt reporting.

b. Schedule of Expenditures of Federal Awards (if applicable).

This schedule, listing federal dollars spent by program (CFDA number), should be prepared and retained for use by the independent auditor.